

CREATIVE ACCOUNTING – ART?

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Abstract: *Although, apparently, accounting seems to be a mechanical process which does not creativity and imagination, it was resituated in the management (administration) science domain, and the financial-accountant information is the most important component of every company. In the present study I accentuated the role of accountability in our days, I developed the “creative accounting” concept, which means, in Trotman opinion a way to “allowing the display of a new favorable image of the results and the statement of account”, or, in the Jean-Jerome Bertolus, Maryvonne Lignon or Isabelle Gounin opinions, is ‘the art of juggling with a statement of account’, ‘of calculating the benefits’ of ‘of saving money’.*

I debated the « managerial creative accounting», which in my opinion means “ the art of composing the money, planting them and making to grow in the way you want”.

1. The financial accountant information- the principal „pawn” in taking decisions

The way to use the human and material resources, regarding the good and the law aspects, affects the managers in the moment of taking decisions. In this context, an essential role is taken by the financial accountant information.

In the last years, the accountability was resituated in the managerial (administration) science domain, that’s why I consider it is a real pawn in taking decisions. In Adrian Manaicu’s opinion, accountability is the “business language”.

The general object of the managerial sciences is represented in the Ion Ionascu’s opinion «the study of managing, structuring and developing an organization». Scientist talking, the accountability makes part of this system, remoting more and more the economics one. Remarkable is the Herbert Simon’s affirmation (1982) : » the economy discovered the market institution, the mechanisms of the price like market adjustment process and the management(administration) discovered the institution of the formal organization,, like a way to take the decisions ».

Creative accounting and **earnings management** are euphemisms referring to accounting practices that may or may not follow the letter of the rules of standard accounting practices but certainly deviate from the spirit of those rules. They are characterized by excessive complication and the use of novel ways of characterizing income, assets or liabilities. The terms "innovative" or "aggressive" are also sometimes used.

The term “creative accounting” can be defined in a number of ways. Initially we will offer this definition: 'a process whereby accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business'.

Although, apparently, accounting seems to be a mechanical process which does not creativity and imagination, essentially, we can notice that most of the firms use a correction of the result and an adjustment of the statement of account, therefore, being able to elude the existing judicial and accounting rules.

Theoretical, the manager must have the capacity to select the information type t he needs, and the informational system must supply the wanted information. The information must be material to management, because, like Peter Drucker said: “is not something perfidious or hurtful, more common, that the presumption to wait the exactly fundamenation of the decisions, based on an

incomplete and harsh information". The manager, the more information he dispose (succeeding to cull the neesentials information) , the more possibilities to obtain the performances he gets.

Accounting is not an exact science, but a real art. Art means creation and creation becomes more and more important in this field. The 'artist' accountant models the information with the purpose of shaping the wanted image, improving or endangering the image of the firm.

French specialists, like Jean-Jerome Bertolus, Maryvonne Lignon or Isabelle Gounin debate the topic of 'Accounting as an art', making references to 'the art of juggling with a statement of account', 'of calculating the benefits' of 'of saving money'.

2.Creative accounting – pros and cons

Accounting has started to extend its area of research towards "creative accounting" (term met in the economic and social field in Great Britain)

For the last two decades several authors have tried to answer the question "Is there creative accounting or not?" Those who answered affirmatively justified their opinions by stating several definitions. Thus, creative accounting came into being in the literature on accounting after 1970, in the works of Watts and Zimmerman (the pioneers of the positivist accounting theory) and in Great Britain.

In the Business Dictionary we met the following definition:

Use of unorthodox techniques which, while following provisions of GAAP, paint a desired (negative or positive, as the case may be) picture of a firm's finances. For example, selling an asset (whose market value is high but book value is low) to create non-operating profit that offsets operating loss. Unlike cooking the books, creative accounting is generally legal. Euphemistically also called financial engineering.

Creative accounting, in Turillo and Teller's opinion (1997) represents "an instrument of improving annual accounts, a prop and a result of financial and fiscal engineering", while Trotman (1993) argues that this concept "allows the display of a new favorable image of the results and the statement of account".

In the "Managerial accounting" book, Sorin Briciu said that the concept "creative accounting"("imaginative accounting" or "intention accounting")," keeps by the best accountable option the manager choose, which accentuate exactly the reality and the company's manager interests. The managers can affect, for example the accountable results of the company by the income and the expense calculated and the income and expense deferred", named regularization count of the exercise result, respecting the accountable rules. The creative accountability can be displayed by the issuing on the accountable solutions in the standard's absence or when this are not enough rappingporting with a managerial situation, case when we have to do with the professional think".

In the book "Accounting policies and options", professors Feleaga and Malciu consider that this concept is used "to describe the process where the professional accountants use their knowledge to manipulate the figures included in the annual accounts".

The ones who answered negatively were happy to affirm that accounting engineering is nothing but 'sheer illusion' (H. Stolowy) which allows some newspapers and magazines to increase their sales and that there is a distinctive difference between the so-called 'creative' accounting and the existence of numerous methods of solving accounting problems.

Also, Jameson (1998) stated that this concept of 'creative accounting opposes the law. It is mainly a method of using rules, but the flexibility and the inaccuracy of these rules make the financial situations to be different from the ones resulting from the strict observance of the rules'.

In my opinion, creative accounting is the 'catharsis' by which the image of the firm is legally 'embellished'.

3. Managerial creative accounting

To define this concept, it is necessary to discuss about the managerial accounting. In France “managerial accounting” is named “analytical accounting” and in our country is named “administration accounting”.

The managerial accounting must obtain financial accounting components and administration(managerial) accounting components. In Sorin Briciu’s opinion, a special place is taken by the internal audit.

Neculai Tabara sustains that „is necessary to do not limitate the managerial accounting at the resources consumes analyzed, and to extend at the not consumed resources analyze.”

Henry Bouqin said that this type of accounting is a management part. It gives the essential information for:

- The control of the current activities
- Planning strategies and next activities
- Assures the optimal recourses activity
- Measure and evaluation of the performances
- Reduce the subjectivity part in the decision process
- Improve the external and internal communication.

Being orientated in the resources utility, the managerial accounting is a management part. Its objective is to measure, to collect, to re-size and to send information for planning, calculation, control and analyzing budget in the internal report preparation for the decision process.

According IAS 10, the economic decisions which are taken by the financial situations users, needs the evaluation of a company capacity to generate cash or cash equivalentents.

An managerial accounting system gives the possibility to manage the daily operations, to detect the problems and to solve it, to make plans for the next periods.

In order to find solutions starting from results, do we need creation? The accountant ‘artist’ cannot be compared with a poet who is inspired by any element of nature (result), thus, creating a sublime poem (the best result).

Like art, « managerial creative accounting»,in my opinion means « the art of composing the money, planting them and making to grow in the way you want».

4. ”Creative accounting and/or ‘accounting engineering?’”

Do you wonder which the connection between engineering, accounting and creation is?

In the literature on accounting we meet two concepts: ‘accounting engineering’ and ‘creative accounting’. Very often they may be taken one for another, some specialists argue that they have the same meaning, but my opinion is that we should regard them as two distinctive notions up to a certain point: their aim.

‘Accounting engineering’ refers to the activity of projecting and research the so-called ‘technological process’ while ‘creative accounting’ is an activity based on highlighting new possibilities of modeling the information , the aim being the same in both cases: manipulation of results by taking advantage of the flaws of the accounting rules, creating a ‘disguised’ image of the firm.

This raises a question: ‘Can creative accounting be a cause of a firm’s bankruptcy?’
Think over!

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